

SAFECO INSURANCE COMPANY OF AMERICA

**Safeco Plaza
Seattle, Washington 98185**

NAIC COMPANY CODE 24740

MARKET CONDUCT EXAMINATION REPORT

as of June 30, 2004

**PREPARED BY INDEPENDENT CONTRACTORS FOR THE
COLORADO DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE**

SAFECO INSURANCE COMPANY OF AMERICA

**Safeco Plaza
Seattle, Washington 98185**

**MARKET CONDUCT
EXAMINATION REPORT**

**as of
June 30, 2004**

Prepared by

James T. Axman, CIE

Frederick T. Verny, Jr., AIE, FLMI

Independent Contract Examiners

March 31, 2005

The Honorable Doug Dean
Acting Commissioner of Insurance
State of Colorado
1560 Broadway Suite 850
Denver, Colorado 80202

Acting Commissioner Dean:

In accordance with §§ 10-1-203 and 10-3-1106, C.R.S., a limited Market Conduct examination of the private passenger automobile business practices of SAFECO INSURANCE COMPANY OF AMERICA has been conducted. The Company's underwriting records were examined at its Home Office, Safeco Plaza, Seattle, Washington 98185. The Company's claims records were examined at its Colorado regional office, 14123 Denver West Parkway, Golden, Colorado 80401.

The examination covered the period from July 1, 2003 to June 30, 2004.

A report of the examination of SAFECO INSURANCE COMPANY OF AMERICA is, herewith, respectfully submitted.

James T. Axman, CIE

Frederick T. Verny, Jr., AIE, FLMI

Independent Market Conduct Examiners

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OF THE
SAFECO INSURANCE COMPANY OF AMERICA**

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COMPANY PROFILE

SAFECO INSURANCE COMPANY OF AMERICA (SICA), is a part of the Safeco Insurance Group of companies initially begun in Seattle, Washington as General Insurance Company of America in 1923. SICA is a stock company and was admitted in Colorado on November 17, 1953. SICA is currently licensed to write business in all 50 states. Personal automobile is written in all states except: Pennsylvania, Oregon, North Carolina, New York, Montana, and Michigan. SICA is licensed in Colorado for all lines except: A&H, Disability, Mechanical Breakdown and Power Failure. The company's home office is located in Seattle, Washington.

The Denver office handles claims for Colorado and surrounding states. In addition to normal claims functions, the Denver Claims department is charged with overseeing some legal functions (including litigation through outside counsel and obtaining legal opinions) and actuarial functions (primarily setting of claims reserves).

*As of the calendar year 2003 the Company had reported premium in Colorado of \$54,746,000 for Private Passenger Automobile Insurance, representing a 1.89 % market share.

*Data as reported in the 2003 Colorado Insurance Industry Statistical report.

PURPOSE AND SCOPE OF EXAMINATION

This market conduct report was prepared by independent examiners contracting with the Colorado Division of Insurance for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Colorado. This procedure is in accordance with Colorado Insurance Law §10-1-204, C.R.S., which empowers the Commissioner to supplement his resources to conduct market conduct examinations. The findings in this report, including all work product developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance law and with generally accepted operating principles related to Private Passenger Automobile insurance laws. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

This examination was governed by, and performed in accordance with, procedures developed by the National Association of Insurance Commissioners and the Colorado Division of Insurance. In reviewing material for this report the examiners relied primarily on records and material maintained by the Company. The examination covered a twelve (12) month period of the Company's operations, from July 1, 2003 to June 30, 2004.

File sampling was based on a review of underwriting and claims files that were systematically selected by using ACL™ software and computer data files provided by the company. Sample sizes were chosen based on procedures developed by the National Association of Insurance Commissioners. Upon review of each file any concerns or discrepancies were noted on comment forms and delivered to the Company for review. Once the Company was advised of a finding contained in a comment form, the Company had the opportunity to respond. For each finding the Company was requested to agree, disagree or otherwise justify the Company's noted action. At the conclusion of each sample the Company was provided a summary of the findings for that sample. The examination report is a report by exception. Therefore, much of the material reviewed is not addressed in this written report. Reference to any practices, procedures, or files, which manifested no improprieties, was omitted.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

When sampling was involved, a minimum error tolerance level of five percent (5%) was established to determine reportable exceptions. However, if an issue appeared to be systemic, or when due to the sampling process it was not feasible to establish an exception percentage, a minimum error tolerance percentage was not utilized. Also, if more than one sample was reviewed in a particular area of the examination (e.g. timeliness of claims payment), and if one or more of the samples yielded an exception rate of five percent (5%) or more, the results of any other samples with exception percentages less than five percent (5%) were also included.

The report addresses only Private Passenger Automobile issues and contains information regarding exceptions to the Colorado insurance law. The examination included review of the following:

1. Company Operations and Management
2. Complaints
3. Underwriting
4. Rating
5. Claims Practices

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Commissioner. Failure to identify or criticize specific Company practices does not constitute acceptance by the Colorado Division of Insurance. Examination findings may result in administrative action by the Division of Insurance.

EXAMINERS' METHODOLOGY

The examiners reviewed the Company's Private Passenger Automobile underwriting, rating, and claims practices to determine compliance with the Colorado insurance law as outlined in Exhibit 1.

Exhibit 1

Law	Subject
Section 10-1-128	Fraudulent Insurance Acts.
Section 10-4-413	Records required to be maintained
Section 10-4-602.	Basis for Cancellation.
Section 10-4-603.	Notice.
Section 10-4-604.	Nonrenewal.
Section 10-4-605.	Proof of notice.
Section 10-4-609.	Insurance protection against uninsured motorists-applicability.
Section 10-4-610.	Property damage protection against uninsured motorists.
Section 10-4-611.	Elimination of discounts – damage by uninsured motorist.
Section 10-4-613.	Glass repair and replacement.
Section 10-4-614.	Inflatable restraint systems - replacement - verification of claims.
Section 10-4-626	Prohibited reasons for nonrenewal or refusal to write auto
Section 10-4-627	Discriminatory standards-proof of financial responsibility
Section 10-4-628	Refusal to write – changes in – cancellation-nonrenewal prohibited
Section 10-4-629	Cancellation-renewal-reclassification
Section 10-4-630	Exclusion of named driver
Section 10-4-632	Reduction in rates for drivers aged 55 or older with drivers education
Section 10-4-633	Certification of policy and notice forms
Section 10-4-706.	Required coverages - complying policies - PIP examination program
Section 10-4-706.5.	Operator's policy of insurance.
Section 10-4-707.5.	Ridesharing arrangements - benefits payable - required coverage.
Section 10-4-708.	Prompt payment of direct benefits.
Section 10-4-709.	Coordination of benefits.
Section 10-4-710.	Required coverages are minimum.
Section 10-4-711.	Required provision for intrastate and interstate operation.
Section 10-4-713.	No tort recovery for direct benefits.
Section 10-4-714.	Limitation on tort actions.
Section 10-4-715.	No limitation on tort action against non-complying tort-feasors.
Section 10-4-717.	Inter-company arbitration.
Section 10-4-718.	Quarterly premium payments.
Section 10-4-719.	Prohibited reasons for nonrenewal or refusal to write a policy of automobile insurance applicable to this part 7.
Section 10-4-719.5.	Discriminatory standards - premiums - surcharges - proof of financial responsibility requirements.
Section 10-4-719.7.	Refusal to write, changes in, cancellation, or nonrenewal of policies prohibited.

Section 10-4-720.	Cancellation - renewal - reclassification.
Section 10-4-721.	Exclusion of named driver.
Section 10-4-724.	Reduction in rates for drivers aged fifty-five years or older who complete a driver's education course - legislative declaration.
Section 10-4-725.	Certification of policy and notice forms.
Section 10-3-1103.	Unfair methods of competition and unfair or deceptive acts or practices prohibited.
Section 10-3-1104.	Unfair methods of competition and unfair or deceptive acts or practices.
Regulation 1-1-7.	Market Conduct Record Retention.
Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests
Regulation 5-1-2.	Application and Binder Forms.
Regulation 5-1-10.	Rate and Rule Filing Regulation
Regulation 5-1-16.	Limitations on the Use of Credit Information or Insurance Score
Regulation 5-2-1.	Relative Value Schedule for No Fault.
Regulation 5-2-2.	Renewal of Automobile Insurance Policies – Excluded Named Drivers.
Regulation 5-2-3.	Amended Auto Accident Reparations Act (No Fault) Rules and Regulations
Regulation 5-2-6.	Automobile No Fault Cost Containment Options.
Regulation 5-2-8.	Timely Payment of Personal Protection Benefits.
Regulation 5-2-9.	Personal Injury Protection Examination Program.
Regulation 5-2-11	Transition from No-Fault Auto to Tort System.
Regulation 5-2-12	Automobile Insurance Consumer Protections.
Regulation 6-1-1.	Limiting coverage.
Regulation 6-2-1.	Complaint Record Maintenance.

Company Operations/Management

The examiners reviewed Company management, implementation, and quality controls, record retention, installment payment plans, anti-fraud plan, forms certification, and timely cooperation with the examination process.

Complaints

The examiners reviewed the complaint database log maintained by the Division of Insurance as a general guideline to determine complaint activity for the period under examination.

Contract Forms and Endorsements

The following Private Passenger Automobile forms and endorsements were filed for certification with the Colorado Division of Insurance on June 25, 2003: These forms were also reviewed to determine compliance with the Colorado law.

Title	Form
PERSONAL AUTO POLICY - COLORADO	SA-1852/COEP 7/03
NAMED NON-OWNER AUTO POLICY - CO.	SA-1947/COEP 7/03
SPECIALTY AUTO POLICY - COLORADO	SA-1714/COEP 7/03
SUMMARY DISCLOSURE FORM	SA-1005/COEP 7/03
Amendatory Endorsement - Colorado	SA-1469/COEP 7/03
Insurance Policy Cover - Front	CN-15 12/00
Insurance Policy Cover - Back	CN-16 4/96
SR 22A 9/99	SR 22
ACORD Automobile Application	ACORD 90 CO (9/02)
Notice of Information Practices	ACORD 38 (7/01)
Application Supplement – Credit Report Disclosure	ACORD 63 (1/97)
Personal Auto Policy Change Request	ACORD 71 4/03
Young Driver Questionnaire	ACORD 93 1/03
Auto Death Indemnity & Total Disability Coverage	SA-142/EP 5/94
Uninsured Motorists Rejection Form	SA-314 10/91
Colorado Cancellation Requirements	CN-501/COEP 1/97
Driver Exclusion – Colorado	SA-784/COEP RI 5/81
Contest Exclusion	SA-873/EP 9/92
Additional Interest Endorsement	SA-875/EP 1/97
Additional Interest Endorsement – Leased Auto	SA-877/EP 1/97
Federal Employees Using Auto in Government Bus	SA-878/EP 2/93
Christian Science Endorsement	SA-960 9/78
Extended Non-Owned Auto Endorsement	SA-966/EP 4/94
Personal Auto Disclosure Form	SA-1005/COEP 1/98
Automobile Application	SA-1036 1/97
Additional Interest-Corporate Owned Auto	SA-1057/EP 1/97
Classic Car Endorsement-Regular Auto	SA-1091/EP 5/97
Classic Car Endorsement – Restricted Auto	SA-1092/EP 5/97
Emergency Assistance Package	SA-1502/EP 6/94
Leased Phone-Lessor's Interest	SA-1598 1/89
Antique Auto Endorsement	SA-1652/EP 5/97
Coverage for Audio, Visual & Data Electronic Equipment & Tapes, Records, Discs, & Other Media	SA-1660/EP 4/94
Special Equipment Coverage	SA-1690/EP 4/94
Personal Auto Policy Declarations Page - Front	SA-1697/EP 9/90
Personal Auto Policy Declarations Page - Back	SA-1698/EP 9/90
Loss Payee Endorsement	SA-1700/EP 2/97
Execution Clause (Signature Page)	SA-1701/EP 9/90
Declared Driver-Specialty Auto	SA-1702/EP 8/92

Extended Non-Owned Auto (Specialty)	SA-1723/EP 5/02
Coverage for Tapes, Records, and Other Devices (Specialty)	SA-1751/EP 4/94
Auto Lease/Loan Coverage	SA-1914/EP 2/93
Good Student Discount Recertification	SA-1957/EP 5/97
Classic Car Notification	SA-1998/EP 12/01
Auto Renewal Questionnaire	SA-2029/EP 1/00
Emergency Assistance Package	SA-2267/EP 1/98
Colorado Policyholder Notice of Premium Increase	CN-6703/EP 9/95
Cancellation Notice-Insured Pays	CN-7010/EP 11/97
Expiration Notice-Insured Pays	CN-7012/EP 12/02
Rescission Notice-Insured's Check Return	CN-7014/EP 11/97
Auto ID Cards	CN-7016/EP 11/97
Expiration Notice-Insured's Check Returns	CN-7018/EP 11/97
Rescission Notice-Insured's Check Rejected	CN-7020/EP 11/97
Cancellation Notice-COD	CN-7023/EP 11/97
Cancellation Notice (Insured's Check Returned)	CN-7024/EP 11/97
Auto ID Cards	CN-7028/EPA 2/98
Auto ID Cards	CN-7028/EPB 2/98
Auto ID Cards	CN-7028/EPC 2/98
Auto ID Cards	CN-7028/EPD 2/98
Auto ID Cards-Named Non-Owner Policy	CN-7041/EPA 1/94
Auto ID Cards-Named Non-Owner Policy	CN-7041/EPB 1/94
Auto ID Cards-Named Non-Owner Policy	CN-7041/EPC 1/94
Auto ID Cards-Named Non-Owner Policy	CN-7041/EPD 1/94
Standard Underwriting DNR Letter	CN-7044/EP 11/95
Post Note	CN-7046/EP 7/02
Cancel Notice-Front Page	CN-7052/EP 11/95
Insured's Cancel Notice-Cover Letter	CN-7055/EP 1/97
Rescind DNR Letter	CN-7057/EP 6/97
Block Reinstate Notice	CN-7063/EP 7/01

In-force Business /Cancellations/Non-renewals/Surcharges/PIP Conversion

For the period under examination, systematically selected samples were taken as follows:

Review Lists	Population	Sample Size	Percentage to Population
In-Force Business	43,538	100	.02%
Cancellations Other	4,649	50	1.1%
Nonrenewals	134	50	37%
Surcharges	723	50	7%
PIP Conversion	35,162	100	.03%

Rating

The examiners reviewed the rate, rule filings, statistical justifications, and methodology submitted to Colorado Division of Insurance for the period under examination. This information was compared against a sample of in-force policies, rated by coverage selection, to determine compliance with filed base rates, territory codes, symbols, class plans, discounts, tier-rating factors, and final premium calculations.

Claims

For the period under examination, the examiners reviewed the claims for General Insurance Company of America to determine compliance with claims handling practices and manual rules and deemed the findings to Safeco Insurance Company of America as discussed in the Examination Report Summary.

EXAMINATION REPORT SUMMARY

It was agreed by all parties involved, the Company, the Colorado Division of Insurance, and the examiners, that because claims operations, management, location and handling were similar with all companies of the Safeco Companies group, in those cases where it appeared that a Claims comment form may be applicable to the Safeco Insurance Company of America, the examiners would include language in the final examination report to "deem" the findings applicable, even though the actual findings may have been exclusively identified in General Insurance Company of America only during the scope of the examination. The Colorado Division of Insurance reserved the right to exam any Company of the group should circumstances arise which would warrant another examination.

In the Underwriting phases of the examination, a separate review of nonrenewals, cancellations, surcharges, in-force new business, and PIP conversion policies were conducted for both Safeco Insurance Company of America and General Insurance Company of America.

The examination resulted in five (5) issues arising from the Company's apparent failure to comply with Colorado insurance laws that govern all property and casualty insurers operating in Colorado.

Company Operations and Management:

In the area of company operations and management three (3) compliance issues are addressed in this report: The issues in this phase are identified as follows:

- **Failure to include some forms on the annual certification listing currently in use by the Company, and therefore, non-certified for the period under examination.**
- **Failure to include a required provision ("premium payment instructions") on the cancellation or nonrenewal form.**
- **Failure, in some cases, to provide surcharge notices requested in order to facilitate the review of surcharged policies.**

It is recommended that the Company review its company operations practices and procedures and make necessary changes to ensure future compliance with applicable statutes and regulations.

Complaint Handling:

In the area of complaint handling, no compliance issues are addressed in this report.

Underwriting:

In the area of underwriting, one (1) issue is addressed in this report. This issue arises from Colorado insurance law requirements that must be complied with whenever policies are issued, canceled, rejected, non-renewed, or surcharged. The issue in this phase is identified as follows:

- **Failure, in some cases, to properly cancel policies in effect over fifty-nine (59) days.**

It is recommended that the Company review its underwriting practices and procedures and make necessary changes to ensure future compliance with applicable statutes and regulations as to the issue addressed.

Rating:

In the area of rating, no compliance issues are addressed in this report. Issues arise from Colorado insurance law requirements involving rate, rule filings, statistical justifications, and methodology and rating of policies with compliance towards base rates, territory codes, symbols, class plans, discounts, tier-rating factors, and final premium calculations.

Claim Practices:

In the area of claim practices, one (1) compliance issue is addressed in this report. Issues arise from Colorado insurance law requirements dealing with the fair and equitable settlements, claims handling practices, payment of PIP claim benefits, and the timeliness and accuracy of claim payments. The issue in this phase was identified as follows:

- **Delay, in some cases, in payment of PIP benefits**

It is recommended that the Company review its claim handling practices and procedures and make necessary changes to ensure future compliance with applicable statutes and regulations as to the issue addressed.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

SAFECO INSURANCE COMPANY OF AMERICA

PERTINENT FACTUAL FINDINGS

COMPANY OPERATIONS AND MANAGEMENT

Issue A: Failure to include some forms on the annual certification listing currently in use by the Company, and therefore, non-certified for the period under examination.

Section 10-4-633, C.R.S. Certification of policy and notice forms, states in part:

(1) All insurers providing automobile insurance and who are authorized by the commissioner to conduct business in Colorado shall submit an annual report to the commissioner listing any policy forms, endorsements, cancellation notices, renewal notices, disclosure forms, notices of proposed premium increases, notices of proposed reductions in coverage, and such other forms as may be requested by the commissioner issued or delivered to any policyholder in Colorado. Such listing shall be submitted no later than July 1 of each year and shall contain a certification by an officer of the organization that to the best of the officer's knowledge each policy form, endorsement, or notice form in use complies with Colorado law. The necessary elements of the certification shall be determined by the commissioner.

(2) All insurers providing automobile insurance and who are authorized by the commissioner to conduct business in Colorado shall also submit to the commissioner a list of any new policy form, endorsement, cancellation notice, renewal notice, disclosure form, notice of proposed premium increase, notice of proposed reductions in coverage, and any other form as may be requested by the commissioner at least thirty-one days before using such policy form, endorsement, cancellation notice, renewal notice, disclosure form, notice of proposed premium increase, notice of proposed reductions in coverage, and any other form as may be requested by the commissioner. Such listing shall also contain a certification by an officer of the organization that to the best of the officer's knowledge each new policy form, endorsement, or notice form proposed to be used complies with Colorado law. The necessary elements of the certification shall be determined by the commissioner.

(3) The commissioner shall have the power to examine and investigate insurers authorized to conduct business in Colorado to determine whether automobile policy forms, endorsements, cancellation notices, renewal notices, disclosure forms, notices of proposed premium increases, notices of proposed reductions in coverage, and such other forms as may be requested by the commissioner comply with the certification of the organization and statutory mandates.

Additionally, Colorado Regulation 1-1-6. Concerning the Elements of Certification for Accident and Health forms, Automobile Private Passenger Forms, and Claims-made Liability Forms, as promulgated under the authority of Section 10-1-109, C.R.S., states in part:

III. Rules

A. Definitions

1. "Annual Report for automobile private passenger insurance" shall mean a list of all automobile private passenger policy forms, endorsements, cancellation notices, renewal notices, disclosure forms, notices of proposed premium increases, notices of reductions in coverage and any other such forms as requested by the commissioner currently in use and issued or delivered to any policyholder in Colorado, including the titles of the programs or products affected by the forms.

In the review of the forms certification listing filed with the Division of Insurance for the period under examination, and in comparison to those forms being used by the Company in its underwriting operations, it was noted that several forms were not included on the listing. The Colorado insurance law requires that the Company submit a complete annual certification report to the commissioner listing any form, disclosure, endorsement or rider delivered to any policyholder in Colorado. Since these forms were omitted, the annual certification would therefore be considered incomplete with further implications that the Company was using non-certified forms during the period under examination.

The Forms relating to this issue are as follows:

- (CN-0500 1/97) – Colorado Cancellation or Nonrenewal of Policy;
- (CN-0500 11/02) – Colorado Cancellation or Nonrenewal of Policy;
- (CN-6703 12/02) – Colorado Policyholder Notice of Premium Increase or Reduction of Coverage;

Recommendation # 1:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-4-633, C.R.S., and Colorado Regulation 1-1-6. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division of Insurance that it has filed a complete annual certification which includes all forms currently being used and has implemented necessary changes in order to ensure compliance with the Colorado insurance law.

Issue B: Failure to include a required provision (“premium payment instructions”) on the cancellation or non-renewal form.

Section 10-3-1104, C.R.S. Unfair methods of competition and unfair or deceptive acts or practices.

(1) The following are defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

(u) Certifying pursuant to section 10-4-725 or issuing, soliciting, or using an automobile policy form, endorsement, or notice that does not comply with statutory mandates. Such solicitation or certification shall be subject to the sanctions described in sections 10-3-1107, 10-3-1108, and 10-3-1109.

Colorado Amended Insurance Regulation 5-2-3. Auto Accident Reparations Act (No-Fault) Rules And Regulations, jointly promulgated by the Commissioner of Insurance and the Executive Director of the Department of Revenue under the authority of Sections 42-1-204, 104-704, 10-4-718, 10-4-719.7, and 10-1-109,C.R.S.

Section 3 Rules

E. Rules Limiting Insurers’ Action To Refuse To Write, Cancel, Nonrenew, Increase Premium, Surcharge Or Reduce Coverages, states in part:

2. Notice of proposed actions.

b. Insurers proposing to cancel, nonrenew, increase premium or reduce coverage shall prominently display on the notice form, within or adjoining the paragraph entitled “Your right to Protest”, the following premium payment instructions:

In order to continue your coverage during the period the proposed action is protested, you must continue to make payments according to your current premium payment plan until a decision is made by the hearing officer. You may contact your producer (agent) or the company at (phone number) for further information. Please note that the company may bill you later for any premium difference occurring if the company’s action is upheld. This is the only notification you will receive to pay the premium due to continue coverage. If the premium is not paid prior to the effective date of the action listed on the notice, the coverage will lapse.

Cancellation or nonrenewal notice (Form#CN0500 1/97) failed to display the required premium payment instructions, which should have been within or adjoined to the existing Right to Protest paragraph as shown on the reverse side of the form.

This violation was cited in the December 17, 2002 market conduct examination, per FINAL AGENCY ORDER# O-03-239 approved April 14, 2003, which states in part:

CONCLUSIONS OF LAW AND ORDER

11. Issue C concerns the following violation: Certifying and using non-complying forms and/or notices in Colorado. The Respondent shall amend its forms and certification filings with the Division to ensure compliance with Colorado insurance law. The Division's records indicate that the Respondent has complied with the corrective actions ordered concerning this violation.

Recommendation # 2:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-3-1104, C.R.S., and Colorado Regulation 5-2-3. In the event the Company is unable to provide such documentation, it should be required to provide evidence demonstrating that the Company has amended its form with the Colorado Division of Insurance to ensure compliance with Colorado insurance law.

Issue C: Failure, in some cases, to provide surcharge notices requested in order to facilitate the review of surcharged policies.

Section 10-4-413, C.R.S. Records required to be maintained.

(1) Every insurer, rating organization, or advisory organization and every group, association, or other organization of insurers which engages in joint underwriting or joint reinsurance shall maintain reasonable records, of the type and kind reasonably adapted to its method of operation, of its experience or the experience of its members and of the data, statistics, or information collected or used by it in connection with the rates, rating plans, rating systems, underwriting rules, policy or bond forms, surveys, or inspections made or used by it, so that such records will be available at all reasonable times to enable the commissioner to determine whether such organization, insurer, group, or association and, in the case of an insurer or rating organization, every rate, rating plan, and rating system made or used by it complies with the provisions of this part 4 applicable to it. The maintenance of such records in the office of a licensed rating organization of which an insurer is a member or subscriber will be sufficient compliance with this section for any insurer maintaining membership or subscribership in such organization to the extent that the insurer uses the rates, rating plans, rating systems, or underwriting rules of such organization. Such records shall be maintained in an office within this state or shall be made available for examination or inspection by the commissioner at any time, upon reasonable notice.

Additionally, Colorado Regulation 1-1-7, promulgated under the authority of Section 10-1-109, C.R.S. states in part:

B. RECORDS REQUIRED FOR MARKET CONDUCT PURPOSES

1. Every insurer/carrier or related entity licensed to do business in this state shall maintain its books, records, documents and other business records so that the insurer's/carrier's or related entity's claims, rating, underwriting, marketing, complaint, and producer licensing records are readily available to the commissioner. Unless otherwise stated within this regulation, records shall be maintained for the current calendar year plus two calendar years.
2. A policy record shall be maintained for each policy issued in this state. Policy records shall be maintained for the current policy term, plus two calendar years, unless otherwise contractually required to be retained for a longer period. Provided, however, documents from policy records no longer required to be maintained under this regulation, which are used to rate or underwrite a current policy, must be maintained in the current policy records. Policy records shall be maintained so as to show clearly the policy term, basis for rating and, if terminated, return premium amounts, if any. Policy records need not be segregated from the policy records of other states so long as they are readily available to the commissioner as required under this rule. A separate copy need not be maintained in the individual policy records, provided that any data relating to that policy can be retrieved. Policy records shall include:

- a. the application for each policy, if any;
- b. Declaration pages, endorsements, riders, termination notices, guidelines or manuals associated with or used for the rating or underwriting of the policy. Binder(s) shall be retained if a policy was not issued; and
- c. Other information necessary for reconstruction of the rating and underwriting of the policy...

The Company could not provide forty-one (41) notifications of increase in premium for review.

Recommendation # 3:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-4-413, C.R.S., and Colorado Regulation 1-1-7. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division of Insurance that it has reviewed its procedure for record maintenance and implemented necessary procedural changes in order to ensure compliance with Colorado insurance law.

UNDERWRITING

Issue D: Failure, in some cases, to properly cancel policies in effect over fifty-nine (59) days.

Section 10-4-602, C.R.S. Basis of cancellation.

(1) A notice of cancellation of a policy shall be valid only if it is based on one or more of the following reasons:

(a) Nonpayment of premium; or

(b) The driver's license or motor vehicle registration of either the named insured or any operator either residing in the insured's household or who customarily operates an automobile insured under the policy has been under suspension or revocation during the policy period or, if the policy is a renewal, during its policy period or the one hundred eighty days immediately preceding its effective date; or

(c) An applicant knowingly made a false statement on the application for insurance; or

(d) An insured knowingly and willfully made a false material statement on a claim submitted under the policy.

(2) This section shall not apply to any policy or coverage which has been in effect less than sixty days at the time notice of cancellation is mailed or delivered by the insurer, unless it is a renewal policy.

(3) This section shall not apply to nonrenewal of a policy.

Colorado Amended Insurance Regulation 5-2-3. Auto Accident Reparations Act (No-Fault) Rules And Regulations, jointly promulgated by the Commissioner of Insurance and the Executive Director of the Department of Revenue under the authority of Sections 42-1-204, 104-704, 10-4-718, 10-4-719.7, and 10-1-109, C.R.S.

Section 3 Rules

E. Rules Limiting Insurers' Action To Refuse To Write, Cancel, Nonrenew, Increase Premium, Surcharge Or Reduce Coverages, states in part:

4. Basis for cancellation of an automobile insurance policy.

b. In the case of policies which have been in effect for more than sixty (60) days, an insurer may cancel a policy affording the coverages required by §§10-4-706 and 10-4-707, C.R.S., only if the cancellation is based upon one of the following reasons:

(1) Nonpayment of premium (§10-4-602, C.R.S.); or

(2) The driver's license or motor vehicle registration of either the named insured or any operator either residing in the insured's household, or who customarily operates an automobile insured under the policy, has been under suspension or revocation during the policy period, or if the policy is a renewal, during its policy period or the 180 days immediately preceding its effective date (§10-4-602, C.R.S.); or

(3) The applicant knowingly made a false statement on the application for insurance (§10-4-602(1)(c), C.R.S.); or

(4) The insured knowingly and willfully made a false material statement on a claim submitted under the policy (§10-4-602(1)(d), C.R.S.).

The following chart illustrates the significance of error versus the population and sample examined:

Private Passenger Automobile Cancellations

Population	Sample Size	Number of Exceptions	Percentage to Sample
4,649	50	4	8%

An examination of fifty (50) cancellations, representing 1.1% of all files cancelled by the Company during the examination period, showed four (4) exceptions (8% of the sample) wherein the Company cancelled policies which were in-force for more than 59 days, for reasons that were not in compliance with Colorado insurance law.

Recommendation # 4:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-4-602, C.R.S. and Colorado Regulation 5-2-3. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division of Insurance that it has reviewed its procedure for proper cancellation of policies in effect over fifty-nine (59) days and implemented necessary procedural changes in order to ensure compliance with Colorado insurance law.

CLAIMS PRACTICES

Issue E: Delay, in some cases, in the payment of PIP benefits.

Section 10-4-708 C.R.S., Prompt payment of direct benefits, provides, in part:

(1) Payment of benefits under the coverages enumerated in section 10-4-706(1)(b) to (1)(e) or alternatively, as applicable, section 10-4-706(2) or (3) shall be made on a monthly basis. Benefits for any period are overdue if not paid within thirty days after the insurer receives reasonable proof of the fact and amount of expenses incurred during that period; except that an insurer may accumulate claims for periods not exceeding one month, and benefits are not overdue if paid within fifteen days after the period of accumulation.

Additionally, Amended Regulation 5-2-8 [Amended and effective September 1, 2000], Timely Payment of Personal Injury Protection Benefits, jointly promulgated by the Commissioner of Insurance and the Executive Director of the Department of Revenue pursuant to §§10-1-109, 10-4-704, 10-4-708(1.3), and 10-3-1110(1), C.R.S.

Section 3. Rule

B. Prompt Payment of PIP Benefits

Section 10-4-708(1), C.R.S. provides that benefits under the coverages enumerated in §10-4-706, C.R.S. are overdue if not paid within 30 days after the insurer receives reasonable proof of the fact and amount of the expenses incurred.

The following chart illustrates the significance of error versus the population and sample examined:

Private Passenger Automobile PIP Claims Paid

Population	Sample Size	Number of Exceptions	Percentage to Sample
266	50	12	24%

An examination of fifty (50) PIP paid claim files, representing 19% of all PIP claim files paid by the Company during the examination period, showed twelve (12) exceptions (24% of the sample) wherein the Company failed to pay at least one PIP medical bill in each file within the thirty (30) day statutory standard as required by Colorado insurance law.

Recommendation # 5:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-4-708, C.R.S., and Colorado Regulation 5-2-8. In the event the Company is unable to provide such documentation, it should be required to provide evidence to the Division of Insurance that it has reviewed its claims handling of PIP benefit payments and implemented necessary procedural changes in order to ensure compliance with Colorado insurance law.

Summary of Recommendations*Safeco Insurance Company of America*

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B: Failure to include a required provision (“premium payment instructions”) on the cancellation or nonrenewals form.	2	5	20
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D: Failure, in some cases, to properly cancel policies in effect over fifty-nine (59) days.	4	3	25
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E: Delay, in some cases, in payment of PIP benefits.	5	1	27

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